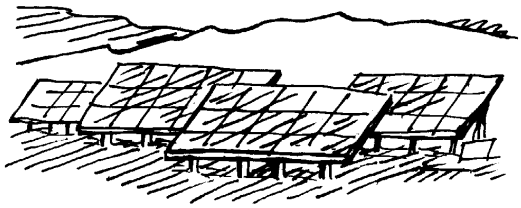
Public Benefits Funds



EPA's State and Local Climate Change Program helps build awareness of the risks of climate change at the state and local levels, and the expertise and capacity to address those risks. By emphasizing the many economic and environmental benefits of greenhouse gas reductions, the program encourages state and local decisionmakers to implement voluntary measures to reduce their greenhouse gas emissions.

Funds for Renewable Energy and Energy Efficiency

States can use public benefits funds (PBFs), also known as "system benefits charges" or "universal service charges," to ensure that energy efficiency, renewable energy, and low-income energy services continue to be supported after electricity restructuring takes place. Public benefits funds can play an important role in state efforts to reduce greenhouse gas emissions and improve air quality because they are an efficient way to maintain or expand programs that improve energy efficiency and promote renewable energy. PBFs also can help reduce energy costs to low-income tenants and homeowners through energy-efficiency upgrades, bill payment assistance, and other services.

States establish PBFs to protect projects that may be at a competitive disadvantage in a deregulated energy market. In a competitive market after electricity restructuring, utilities are no longer required to assess public benefit surcharges or perform public benefit services. When states create PBFs, they levy comparable surcharges and direct them into a fund administered by a state agency or an independent private organization. They also may set aside funds to support emerging technologies that may not yet be cost-effective.

PBF surcharges typically are levied on all electricity customers. The charges do not affect competition among electricity providers since all of them must levy the surcharge. The charges most often are assessed as a fee per kilowatt-hour (kWh), usually in the range of $0.0005 (0.5 mills) to $0.003 (3 mills), although customers in some states pay a flat fee regardless of the amount of electricity they use each month. A mill is equal to 1/10 of a cent.

PBFs generally do not increase the net cost of electricity to consumers, because they merely replace the existing public benefits surcharges levied by utilities in traditional regulated electricity environments.

The Federal Role

With the restructuring of the U.S. electricity market, opportunities to grow the renewable energy industry are increasing. Within the federal government, Congress has debated multiple bills that provide incentives for purchasing renewable energy, including the use of public benefits funds. Two such bills are S.597 and S.1333.

On March 22, 2001, the Comprehensive and Balanced Energy Policy Act of 2001 (S.597) was introduced in the U.S. Senate. Section 502 of this bill specifically addresses instituting a public benefits fund that would be operated by the U.S. Treasury. This PBF would dictate that any electric generating facility with a capacity of at least 5 MW would pay 1 mill ($.001) per kWh into the fund. This fund would be disbursed to state and tribal governments on a monthly basis through the year 2015. In addition to funding renewable energy programs, this fund also would be used to provide for low-income households' energy needs.

Another bill being discussed by Congress is the Renewable Energy and Energy Efficiency Investment Act of 2001 (S.1333), introduced in the U.S. Senate on August 2, 2001. This bill, if passed, would provide a National Electric System Benefits Fund

BENEFITS OF PUBLIC BENEFITS FUNDS

- Reduced emissions of greenhouse gases and air pollution.
- Significant environmental and social benefits at low cost to individual ratepayers.
- Competitively neutral (do not influence consumer choice of electricity providers).
- Support implementation of emerging technologies.
- Support development of a wide variety of technologies and programs.
- Make energy bills more affordable for low-income households.

that would provide matching funds for state public benefits funds, up to a total of 2 mills ($.002) per kWh.

State Experiences with Public Benefits Funds

As of November 2001, 22 states and the District of Columbia had passed electricity restructuring laws that include public benefits funds.

Altogether, the funds collect and distribute almost $1.7 billion annually for energy efficiency projects, renewable energy projects, research and development, and low-income assistance programs. These funds may help underwrite the development of an estimated 1,100 megawatts of new renewable energy by 2012, enough power to meet the entire electricity needs of over 365,000 homes (not accounting for distribution losses) and reduce greenhouse gas emissions by 860,000 metric tons of carbon equivalents (MTCE)—equivalent to taking 619,000 cars off the road.

States with public benefits funds: Arizona, California, Connecticut, Delaware, Illinois, Maine, Maryland, Massachusetts, Michigan, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Texas, Vermont, and Wisconsin.

New York

New York established a PBF, administered by the New York State Energy Research and Development Authority (NYSERDA) in 1998. Funds totaling $234.3 million were collected over the three-year period from 1998 to 2001 through an average $0.00085 charge per delivered kilowatt-hour. By year 2000 NYSERDA was operating New York Energy $mart^{SM}, containing more than 35 programs under five principal categories—energy efficiency, renewable energy, low income, research and development, and environmental protection. Based on program results from funds committed as of June 2001, New York Energy $mart^{SM} programs are anticipated to lead to annual reductions in energy bills of $119.1 million and annual electricity output by 927.7 million kWh. As a result, air pollution will be reduced by 83 MTCE, 1,680 tons SO_2, and 960 tons NO_X.

In 2001, the New York Public Service Commission extended the program for five years, through June 2006, and increased the annual funding from $78 million to $150 million. The program will focus on achieving peak load reductions during summer months when electricity demand soars.

Massachusetts

Massachusetts' experience with PBFs dates back to 1988, beginning with the energy efficiency fund, initiated by the State Utility Commission and standardized by law in 1998. The fund's charge has decreased every year since then and will remain at its current price of 2.5 mills/kWh until 2007. Over its 15-year lifetime, the PBF achieved $3.2 billion in savings from avoiding 3.8 billion kWh per year.

Massachusetts launched its renewable energy PBF in 1998. Charges have decreased since the fund's inception; funds are raised through a charge of less than 1 mill ($0.000075) per delivered kilowatt-hour for 2002, and will decrease to 0.5 mills in 2003 and each year thereafter. The fund grew to roughly $150 million over a five-year period (1998-2002), with approximately $20 million per year projected beyond 2002. The 2001-2002 operating plan calls for focus on green buildings, premium power (defined as any electrical power service for which a customer pays a premium), and wind power. To date, the fund has supported projects by local governments, the U.S. Coast Guard, Mount Wachusett Community College, the New England Aquarium and others.

California

Between 1998 and 2002, California's Renewable Energy Trust Fund collected $540 million from the state's investor-owned utilities to support existing, new, and emerging renewable technologies. Recent legislation extended this funding (at the same annual levels) through 2012, which will generate an estimated $1.3 billion in renewables funding. Municipal utilities and individual customers also may contribute to the fund.

The fund is divided among four accounts. The Existing Technologies Account totals $243 million, with funds distributed through a production incentive (capped at 1.5 cents per kilowatt-hour). The New Technologies Account totals $162 million and also will be distributed through production incentive payments. The Emerging Technologies Account ($54 million) provides rebates, buy-downs, or equivalent incentives for emerging renewables. The Consumer-Side Account ($81 million) provides customer rebates for the purchase of renewable energy and funds an education program to help develop a consumer market for renewable energy.

California also is collecting $275 million annually from the state's investor-owned utilities for energy efficiency projects. The California Board for Energy Efficiency administers the program.

For More Information

EPA's ***State and Local Climate Change Program*** helps states and communities reduce emissions of greenhouse gases in a cost-effective manner while they address other environmental problems.
Web site: http://www.epa.gov/globalwarming/; click on ***"Public Officials"*** under the ***"Visitors Center."***

The U.S. Department of Energy's (DOE) ***State Energy Alternatives*** home page provides information on state incentives for renewable energy.
Web site: http://www.eren.doe.gov/state_energy/

DOE's ***Office of Power Technologies***, in the Office of Energy Efficiency and Renewable Energy, tracks electric utility restructuring developments across the country.
Web site: http://www.eren.doe.gov/electricity_restructuring/

The ***National Database of State Incentives for Renewable Energy*** provides information on state financial and regulatory incentives that are designed to promote the use of renewable energy.
Web site: http://www.dsireusa.org/ then click on ***"Summary Tables,"*** then ***"Rules, Regulations, & Policies,"*** then ***"PBFs."***

The ***American Council for an Energy-Efficient Economy*** maintains an online summary table of state public benefit programs and electric utility restructuring.
Web site: http://www.aceee.org/briefs/mktabl.htm

The Union of Concerned Scientists' report, ***Powerful Solutions: Seven Ways to Switch America to Renewable Electricity***, includes information on public benefits funds.
Web site: http://www.ucsusa.org/energy/